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SUBJECT: NDRC CHAIRMAN: SLOWING INVESTMENT GROWTH, FIGHTING  
INFLATION KEY CHALLENGES IN 2008

REF: (A) BEIJING 809

(B) 07 BEIJING 1528  
(C) 06 BEIJING 4374  
(D) BEIJING 583  
(E) BEIJING 390

SUMMARY  
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1. (SBU) Ma Kai, Chairman of the National Development and Reform Commission (NDRC), stated on March 6 that China's macroeconomic controls over the past five years have been effective and he is satisfied with the rate at which investment growth is slowing. Ma reiterated concerns expressed by Premier Wen Jiabao in the Government Work Report (Ref A) that inflation may have a detrimental effect on the economy, but he added that inflation primarily is due to food price increases and the government will be able to control prices through market mechanisms. External factors, including higher resource prices and the sub-prime mortgage crisis in the United States will affect China, he said. Ma defended the government's response to the recent snowstorms and said the storms would not have a long-term effect on the economy. It remains unclear how the NDRC might be affected by the Central Government's administrative reform plans. END SUMMARY.

2. (SBU) Unlike previous years (Refs B and C), Ma was not given the opportunity to be the sole presenter at a National People's Congress (NPC) press conference on macroeconomic controls. Instead, he was joined by Minister of Finance (MOF) Xie Xuren and People's Bank of China (PBOC) Governor Zhou Xiaochuan. Only four of fourteen questions were directed to Ma with the other questions focused primarily on China's fiscal and monetary policy (septel to follow).

NDRC'S SUCCESSES: AVOID FLUCTUATIONS, STABLE GROWTH  
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3. (SBU) Ma opened the press conference by responding to a reporter about the effectiveness of China's macroeconomic controls, stating that the NDRC's most important achievement over the past five years has been promoting stable growth while avoiding economic fluctuations. While there remain problems such as out-of-control investment in some sectors and confiscations of arable land for industrial use that have threatened grain production, Ma said he is satisfied with the Central Government's progress towards slowing investment growth. He stated that investment grew by only 24.8 percent in 2007 after several years of 30-40 percent growth. If not for measures to rein in investment growth, Ma said, there would be severe overheating.

¶4. (SBU) Ma added that excess money supply and overinvestment are not necessarily the fault of poor macroeconomic controls. The international environment, for example, also affects China, and global markets have an impact on excess liquidity and inflationary pressure in China. PBOC Governor Zhou stated that one source of this impact is the current sub-prime mortgage crisis in the United States. While the proportion of Chinese assets in sub-prime investments is relatively small, Zhou said the impact of the crisis on the U.S. economy will affect the global economy, including China.

#### INFLATION: ATTRACTING GOVERNMENT'S ATTENTION

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¶5. (SBU) Ma acknowledged that China's Consumer Price Index (CPI) growth, by 4.8 percent in 2007 and by 7.1 percent year-on-year in January (Ref D), has attracted wide attention within the government and from the public. Ma said the price hikes are primarily due to rising food prices and are therefore structural in nature, so he does not think China has entered an inflationary period. In fact, he said, since grain and pork prices have been low for many years, the price increases may be overdue. The Central Government cannot afford to overlook inflation, however, and it will work to keep CPI growth at 4.8 percent or lower in 2008.

¶6. (SBU) The NDRC Chairman said Premier Wen's nine measures to control inflation that he announced in the work report basically could be boiled down to three areas: (1) increasing the supply of agricultural products, (2) offering subsidies to the low-income population to offset price hikes, and (3) improving market regulation and cracking down on price collusion. Wen said the NDRC primarily would use economic means, rather than administrative measures, to control prices. There currently are no plans to freeze prices, he said.

¶7. (SBU) Comment: We are increasingly hearing views of analysts and even government economists that China's inflation issues specifically do not end with food supply shocks, that money supply growth, which hit a 20-month high in January, may portend broader inflation headaches down the road. At the same time, high growth in productive capacity coupled with falling external demand could actually prove to be a deflationary force. End Comment.

#### SNOW STORM IMPACT: ALMOST BACK UP AND RUNNING

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¶8. (SBU) Ma sought to reassure the public that the government's response to the recent snow storms (Ref E) was appropriate, and he said that relevant agencies have made progress in restoring the country's transportation network and power grids. China's coal inventory is back up to 2.7 million tons, he said. In addition to Ma's answer to a journalist about the storms, the NPC also released a report (in English and Chinese) at the press conference entitled "An Introduction to the General Situation of Rush Emergency, Disaster Relief and Post-Disaster Reconstruction Arrangements."

#### SUPER MINISTRIES: NDRC REORGANIZATION ON THE WAY?

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¶9. (SBU) Comment: Interestingly, none of the journalists at the press conference asked Ma about recent rumors that the NDRC would be reorganized or that some of NDRC's responsibilities might be shifted to other ministries under the Central Government's administrative reform plans. We note, however, that this was the first year Ma appeared at the macroeconomic policy press conference together with the PBOC Governor and Minister of Finance, possibly indicating that NDRC will be affected by forthcoming reforms. One journalist did ask Minister Xie about MOF's ability to regulate insurance once it "becomes a larger ministry," but Xie did not answer that part of the question. It remains unclear how the NDRC might be affected by the Central Government's administrative reform plans.